

that agency hastened to assure its clientele that the passing of Mr. Lasker to the Shipping Board did not mean that he had retired from the advertising agency. He also is part owner in the Chicago National League Ball Club.

E. J. Frey, as already mentioned, receives \$25,000 a year as "operating vice president of the Shipping Board. He is one of three such officials. The other two receive \$35,000 a year each, and the reason for the discrimination in salaries, as given by Mr. Lasker, is interesting. Mr. Frey was with the Shipping Board "all through the war." During part of that time he received \$8,700 a year. He was being paid at \$10,000 a year when he left. Before Mr. Frey came to the Shipping Board the first time, at \$7,800 a year, he was vice president of a company operating two boats out of Los Angeles.

Mr. Lasker, in appearing before a committee of which Martin B. Madden, a member of Congress was chairman, explained his hiring of Mr. Frey, and of Mr. Smull, and of Mr. Love, as follows:

"One man was getting \$35,000, and we paid it to him; another man was getting \$25,000, and we paid that to him. The other man was making so many times more than \$35,000, that he said: 'What I get is a matter of indifference, and I will take what you pay the other men. I do not want to humiliate them by taking less.' Those men were in important positions, and are important men in the shipping world."

The man who didn't want to humiliate the others was placed on the pay roll at the higher of the two figures, \$35,000.

Mr. Love was with the British shipping firm of Furness, Withy & Company, as American manager, and is American-born and an American citizen. Mr. Smull is a member of the firm of Winchester & Company, a shipping brokerage firm. He is reputed to be a half owner in a firm whose profits were estimated by Mr. Smull at no less than \$500,000 for a year. Both of these men had considerable power in the war days of the Shipping Board as they were members of the chartering committee of the government corporation. According to Mr. Lasker, it required 12 days to sway Mr. Smull sufficiently to bring him back into the midst of the wreckage he had left many months before. Mr. Lasker, in testifying, said that he told Mr. Smull that it would be only with him that the "American marine can be saved." During the war Mr. Smull accepted \$5,000 a year for his services.

The wooden ships and the program which called for their construction form perhaps the more interesting chapter of the mercantile marine debacle which this country has gone through. There have been 571 wooden ships constructed. Prior to the sale of the 205 recorded earlier in this story, 112 were disposed of, at a tremendous loss. In accepting the first loss, a further loss resulted when the buyers defaulted in the deferred payments so obligingly arranged for them by the government. Two hundred and seventy-four of these vessels are, or, up to a short time ago, were tied up in the James River.

### In Which the Mistake Is Pointed Out

AS STATED, there were 571 ships of wood built, and turned over, and accepted by the Shipping Board. Only 90 of these had been finished the day the armistice was signed, November 11, 1918. The other 481 have been delivered since that time.

As Mr. Madden, the Republican member of Congress from Illinois, said: "The mistake that has been made in the whole business is that we have carried on a wonderful shipbuilding program three years after the armistice was signed."

And to prove that it can continue to build ships, even though today it is operating only 632 (all steel) of the 1,753 it has, and even though it is losing money at the estimated rate of \$136,000,000 a year, the Shipping Board blithely goes on its way turning out more ships. There are 19 more to be built, and, we have the word of several, these 19 will complete the program. So much for that. Quite incidental to the building and finishing of these 19, the last of which will not be delivered until the spring of 1922, is the fact that at the recent hearing where Mr. Lasker testified, it was desired of the House Committee that \$29,175,000 be allowed to finish up the score. This sum was allowed. No doubt these will be tied up, either at Camp Eustis, in the James River, where 315 steel ships are now huddled together, or in Jamaica Bay where three great fleets are idling, when they are turned over.

How much it will cost to maintain these 19 ships, designed for passenger service, perhaps may be gleaned by looking over the cost of maintaining the Leviathan, the giant passenger ship seized by this government when it went to war with Germany. The Leviathan is not in service but that seemingly has little to do with the cost of keeping it afloat. The Shipping Board, it is stated, sought to sell the Leviathan for \$4,000,000. William Randolph

Hearst, waving the American flag and shouting, "Down with England," obtained an injunction forbidding the sale. As a result, the United States Shipping Board pays \$45,000 a month to maintain the Leviathan, and \$17,000 a month for dockage space in New York Harbor. This boat could be towed out to Jamaica Bay, and at least the \$17,000 saved.

The present cost of keeping the Leviathan is \$62,000 a month. That is at the rate of \$744,000 a year. Half of that, it appears, could be saved.

As far as can be determined, the proposals of the present Shipping Board to solve the question of what to do with the American mercantile marine now rusting and rotting in idleness, are of three kinds:

(a) Sell the ships. (They can't be sold as ships—only as junk).

(b) Make bare boat charters. (None will charter them that way).

(c) Give contracts, each paying half, sharing half. (So far, none has signified willingness to accept this proposition).

The foregoing naturally leads to speculation as to what has been done heretofore with the Shipping Board fleet. It should be explained that the ships have been operating under what is known as a M. O. (managing operator's) contract. A most interesting document. The managing operators sorrow in the knowledge that ere long public opinion, if not the Shipping Board, will force the abolition of the M. O. contract. Here is what it is, briefly:

The contracts provide that the government shall "expend all money to operate the ship, to keep it in repair, to pay its port charges, to pay any damages, to pay the men, and that the operating manager is to receive five per cent of the gross receipts."

More than two hundred million dollars (as nearly as can be estimated) was lost during the past year through the operation of this contract.

### Nice for the Operator

THE government paid all, the managing operator paid nothing, and profit or loss, he took five per cent of all money collected for all cargoes carried in the ships allocated to him. Not bad, not bad! The board has not, up to the time this is written, abrogated any of these contracts. It hopes to, and the House Committee has Mr. Lasker's assurance to that effect! There have been four years of this kind of assurance, and several billion dollars lost by the American people.

In one of the preceding paragraphs the phrase, "as nearly as can be estimated" is used in reference to the loss sustained by the government in the operation of ships under the M. O. contract. The reason for that phrase is that Mr. Madden, the chairman of the committee that stands sponsor for the bill appropriating \$48,500,000 for the continuance of the activities of the board, said in explaining to the House the position of the committee, "No one can find from the records of the Shipping Board what the loss is or what the cost of anything is."

Mr. Lasker is authority for the statement that of 9,000 voyages made in Shipping Board ships, 6,000 have never been audited and the cost or revenue from those voyages is unknown. Perhaps Mr. Lasker has not had the opportunity to go back through the days of 1919, when John Barton Payne was chairman of the Shipping Board. At that time, there was a general controller (he was succeeded by Mr. Tweeddale,) the man who now gets \$15,000 a year) named Colonel E. H. Abadie. Colonel Abadie instituted what he termed a "voyage-account drive" while he was in office, and within a few weeks, succeeded in obtaining from the pockets of the operators to whom the ships had been allocated, more than \$130,000,000. As an incident of this, it was found, that, contrary to the terms between the operators and the Shipping Board under which the operators were to keep separate all voyage-accounts, more than half of this sum had been permitted to remain in with private funds of the operators. The auditing of 3,480 voyage accounts brought in this sum. That was back in 1919. Since that time there has been no auditing of ship operators' accounts by the Shipping Board. What sums the operators have collected within that time, if any (and from the figures herein presented it is not unfair to presume that there are such sums), is absolutely unknown. It has been passed over as something quite negligible.

The status of the books of the Shipping Board is

a matter that has puzzled Washington for some weeks. The rest of the country has heard little of it. Indeed, it has been stated, not with the authority perhaps that such a statement should bear, that the vital records (provided that there were records in such shape that results could be obtained by consulting them) have been stolen and destroyed. At any rate they do not appear to be available.

That things are in a pitiable mess, however, certainly may be gathered from what facts are officially available, and the reader is referred to the following statements:

"Rep. Madden: 'There was no system of accounting whatever. The urgent need seemed to be material for ship construction. Every effort was bent in that direction. (In connection with that it should not be considered harsh if one were to point out that of the 2,000 ships built for the Shipping Board, but 113 steel, four composite, and 90 wood vessels were delivered up to the date of the armistice, November 11, 1918—a total of 207—Ed.). The accounting of expenditures was a lost art. No one knew what became of anything or where it went, how it got there or how much it cost. . . . The controller of the Shipping Board stated that under the stress of war the accounting department was not able to find out where the ships went and when they came away from the place to which they went. . . . The record is replete with evidences of bad management.'"

During the hearing:

The Chairman (Mr. Madden): "Is there a balance sheet ever gotten out in the Shipping Board?"

Mr. Lasker: "No; that is what we have got outside auditors for now, to try to get such a thing as a balance sheet."

And when Mr. Lasker mentions the employment of outside auditors, it brings to mind that there is an audit which has cost the United States Government (or its citizens) more than a half million. It was expected that, completed, the audit and the methods employed to obtain it would be of immense value in like operations in the future. That audit, begun somewhere around two years ago, never has been completed. It had to do with the books of the Bethlehem Shipbuilding Corporation, a subsidiary, if one may use that term, of the great steel corporation of which Charles M. Schwab is the controlling genius. Mr. Schwab, it will be remembered, at one time, shared the two-man control of the Shipping Board and the Emergency Fleet Corporation. At the same time, the Bethlehem Corporation was engaged in building ships for the government.

It was during the régime of Colonel Abadie as general controller of the board that the audit of the Bethlehem Corporation was begun under his direction. The work seemingly proceeded smoothly until a voucher for more than a quarter of a million dollars was investigated by the auditors. There was a notation, or a memorandum, to the effect, it was alleged, that \$100,000 of the amount was to be charged to ship construction. The voucher supposedly was issued against Mr. Schwab. At any rate, the audit was stopped, and some months later, during the Walsh committee hearing, the facts as Colonel Abadie understood them, were given to the committee.

### Mr. Schwab Is Exonerated

MR. SCHWAB, at his own solicitation, appeared before the committee the next morning. During his testimony, in which he repudiated the suggestion previously made that ship construction had been charged with any personal expenses, Mr. Schwab wept. The committee in its report, had this to say of the incident:

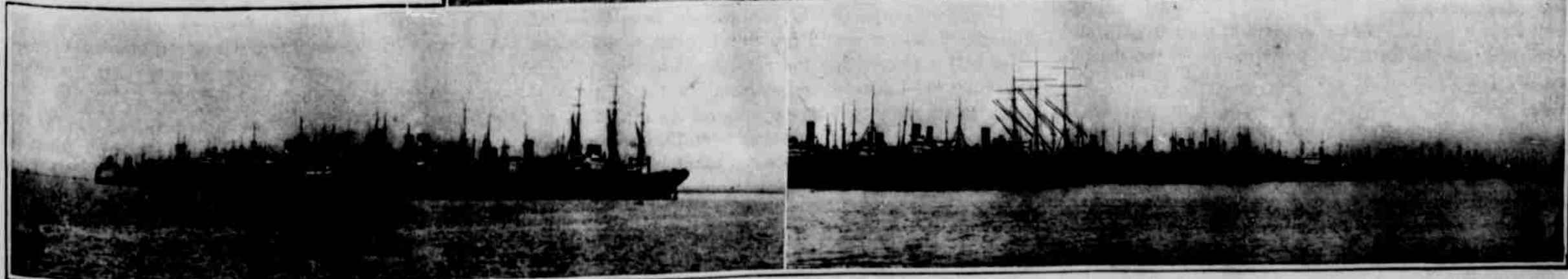
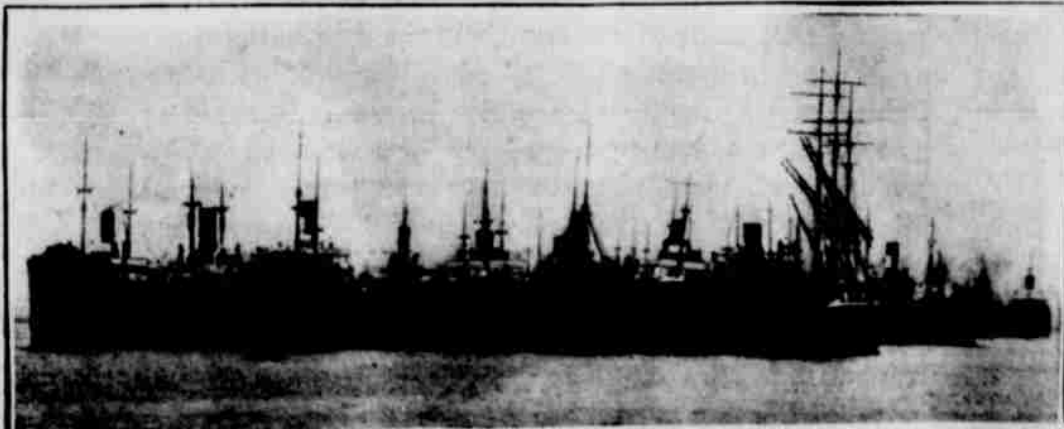
"Your committee is of the opinion, based upon the testimony, that the charge made by Colonel Abadie in his testimony has not been proven and is not true."

What is of interest today is that the audit, after an expenditure of more than a half million dollars, never has been completed as originally planned and directed. The facts, whatever they may have been as indicated in the examination made by the outside auditors (and later by Shipping Board auditors), are so incomplete as to be entirely valueless.

Further to stress the fact that the records of the Shipping Board are in miserable form (granting that any records now exist), let the following evidence be added:

As a result of Shipping Board operations, construction, and otherwise, there are 3,500 claims against the government, amounting to \$350,000,000, as "nearly as can be estimated." Again, the reader will note, there is the expression, "as nearly as can be estimated." It is an official stock phrase. There are 3,500 suits pending against the government, of which 900 are pending in state and district courts all over the United States. No preparation has been made by

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The three United States Shipping Board fleets assembled in Jamaica Bay, between Barren Island and the Rockaways. At the top is Fleet No. 3, now being built. At the right is the largest and longest of the three, which is Fleet No. 2. At the left is a front view of Fleet No. 1, lying across Ruffe Bar. These three photos show the collection of idle steel vessels in Jamaica Bay.